

## SYSTEM AND METHOD FOR TRADING AN INSTRUMENT

FIELD OF THE INVENTION

5       The present invention relates to a system and method for  
buying and/or selling a particular instrument, such as a  
financial instrument.

BACKGROUND INFORMATION

10       In a conventional open auction, each potential buyer of  
an instrument knows the bids of the other potential buyers.  
Such an open auction allows the potential buyers to take  
advantage of their knowledge of the details of the other bids  
and can result in the winning bidder obtaining the instrument  
for a lesser value than he or she would otherwise have been  
willing to pay. Thus, providing information regarding other  
potential buyers' bids to each potential buyer may be  
detrimental to the seller.

15       Alternatively, in a sealed bid auction, potential buyers  
do not know any details of the bids of others. Such a system  
also can operate to provide less than a best bid price,  
because potential buyers may hesitate to adjust bids since  
they may simply be "bidding against themselves."

20       Thus, there is a need to create a system for auctions  
which encourages bidders (or offerors) to present their best  
possible bids (or offers) in an efficient manner.

SUMMARY OF THE INVENTION

25       The present invention relates to a method and system for  
trading an instrument, such as a financial instrument. A  
customer generates a request for a price and provides data  
concerning the instrument for which the price is sought. The

price requested may be a price to buy (bid) or sell (offer) the instrument. The request is provided to a group of users via a communication network. Each user may provide a price response to the request. The user responses are provided to the customer via the communication network. The best price response generates a first indication to the user who provided such price response. All other users providing a price response are given a second indication, which is different from the first indication and which does not identify the best price. At any time, the customer may accept any pending response, make a counter-request to any or all users, or withdraw from the auction. Until the customer accepts a price response or withdraws from the auction, each user may adjust his or her price response (up or down) or cancel the response, at any time, taking into account whether the response generates the first indication or the second indication.

#### BRIEF DESCRIPTION OF THE DRAWINGS

Figure 1 shows an exemplary embodiment of a system according to the present invention.

Figure 2 shows a method according to the present invention as seen by a customer.

Figure 3 shows a method according to the present invention as seen by a user.

#### DETAILED DESCRIPTION OF THE INVENTION

Figure 1 shows an exemplary embodiment of a system 1 according to the present invention. A system 1 may be utilized as a vehicle for providing information, execution of trades and/or electronic commerce. In particular, the system 1 may be utilized to arrange trades of instruments for users and may charge various commissions for executions of such

trades. In addition, the system 1 may provide users with real-time pricing data, analyses and risk management for the instruments. The instruments may be financial instruments such as stocks, bonds, derivatives and other financial products, or could be any other instrument suitable for purchase or sale. The users of the system 1 may be hedge funds, pension plans, corporations, broker dealers, banks, individuals, or any other suitable user. The customers can be any suitable party desiring to purchase or sell an instrument using the invention.

The system 1 preferably includes two "sides" -- a requesting side and a responding side. The requesting side includes one or more customers who request others to bid and/or offer a particular instrument. The responding side includes one or more users who are capable of generating a response to the request of the requesting side. A particular entity could be on the requesting side in one transaction and on the responding side in another transaction. For purposes of simplification, the requesting side will be referred to as "a customer," while the responding side will be referred to as "a user."

The system 1 includes at least one customer 50 a plurality of one users (e.g., user 10 and user 30). The customer 50 and the users 10, 30 may communicate with the system via a communication network 60. The network 60 may be an internet, intranet, dedicated network, telephone network, wireless network, etc. At any time, customer 50 may communicate with either one user, a group of users, or all users, as it desires, to the extent permitted by the rules of the system 1. Such private communications may be in a form of fax, e-mail, real-time chats, telephone, etc.

Each participant of the system 1 preferably has a computer which is capable of communication with a data

processing system (such as a conventional computer or a mainframe). Preferably, the data processing system includes a computer-readable storage device that stores a particular software application. The software application allows execution of a method according to the present invention. The participant computer can be a personal computer or a computer terminal.

In another exemplary embodiment of the system 1, the participants may use "dumb terminals" for communications among themselves. The system 1 may use a thin client environment whereby the participant is sharing time on a particular server.

Figures 2 and 3 show an exemplary embodiment of the method according to the present invention. In particular, Figure 2 shows steps of the method for the requesting side (or customer) and Figure 3 shows steps of the method for the responding side (or users).

Referring to Figure 2, in step 210, a customer generates a request. A basic request is a price request which may include, for example, a request for a bid to buy the instrument or a request for an offer to sell the instrument. A customer may make multiple requests. For example, the customer may issue a request for bids to buy an instrument and at the same time issue a request for offers to sell the instrument.

The customer request may include an identifier of the instrument (e.g., a stock symbol); a quantity of the instrument (e.g., 40 shares); a type of an action requested (e.g., bid to buy or offer to sell); a period when the offer is open (e.g., offer is open between 9:00 am and 9:30 p.m.). The request may further include a plurality of predefined conditions. For example, the request may identify if the

customer 50 is willing to accept anything but a full quantity of the financial instrument (e.g., "I would like to buy 1,000 shares of XYZ, but will entertain offers seeking to sell me 500 shares"). The request may include a plurality of subrequests (e.g., "I would like to buy 100 shares of ABC, and sell 500 shares of XYZ"). The request may be conditioned upon a predetermined event (e.g., "I am seeking to sell 100 shares of XYZ, but will sell 200 shares if the bids are above \$90").

Once the request is completed, it is entered and stored in the system and is communicated to a list of predefined users 10, 30 via the network 60. (Step 220.) For each transaction the customer preferably can establish the initial list of users or can operate from a default list of users established by the user or the rules of the system 1. The customer 50 preferably may add and/or delete a particular user to/from the list at any time. Such addition and/or deletion may be done in real time or periodically. Preferably, the customer 50 may define groups of users. Such groups may be ranked (e.g., group A will get the request first), categorized (e.g., group B specializes in derivatives), or organized in any form desired by the customer. The groups may be ranked manually by the customer 50 or automatically based on predetermined parameters (e.g., past performance, reputation, etc.).

After the request is submitted to the selected users 10, 30, the users may generate responses according to the method which is described in more detail below and shown in Figure 3. After the users 10, 30 generate the responses to the request, such responses are stored in the system and communicated back to the customer 50. (Step 230.)

The customer 50 preferably is provided with at least the following four options upon receiving responses to the requests. (Step 240.) First, the customer 50 may accept the

response of any user. If the response of a user is accepted by the customer 50, a settlement procedure is initiated. During the settlement procedure, the customer 50 and the user exchange predetermined settlement information, either through the system or "off-line," such as via private communication or a clearing agent, as appropriate. Once a response is accepted, the request and all of the responses to that request are eliminated from display on the monitor of all participating users.

If the customer 50 is not satisfied with any of the responses by the users 10, 30, the customer 50 may wait for a better response (e.g., a lower price if the customer 50 is seeking offers and a higher price if the customer 50 is seeking bids). A better price could be a better price as compared to all users, or the customer 50 could wait for a better price from a preferred user. The customer 50 may, but is not required to, notify the users 10, 30 that none of the responses is acceptable. In addition, the customer 50 may extend, limit or otherwise condition a time period for further response by the users 10, 30. The customer 50 also could extend the request to additional users.

Alternative to accepting a response, or awaiting additional responses, the customer 50 may cancel the request partially or completely. If the customer 50 cancels the request, such cancellation is transmitted to all users. All the responses to the canceled request are eliminated from the system 1. If the request contains more than one subrequest, then the customer 50 may cancel one or more subrequests. For example, if the request includes a first subrequest to buy XYZ stock and a second subrequest to sell ABC stock, then the customer 50 may cancel the first subrequest and keep the second subrequest. Subsequently, all the users are notified that the request is completely or partially canceled, and all of the responses to the canceled portion of the original

request are eliminated from the system.

Finally, the customer 50 may amend the request, or make a counter-request. The request may be amended by the customer 50 at any time before a response to the request is accepted by the customer 50. The customer 50 may amend any of the parameters of the original request. The customer 50 may change the time period of the request, the quantity of shares, etc. All users are notified of the amended request. All of the responses to the originally submitted request are eliminated, and new responses can then be submitted. A counter-request could be submitted to any or all participating users, or even to new users which did not receive the original request. The customer can enter a counter-request into the system, or could privately communicate the counter-request to desired users. The customer also could select one or more users and enter into private negotiations with those users.

As mentioned above, Figure 3 shows the steps of the responding side, or the users 10, 30. Once a request is submitted by the customer 50 (step 220), the request is provided to the users 10, 30 via the network 60. (Step 305). The users 10, 30 may prepare responses to the request.

The users 10, 30 submit the responses to the request via the network 60. (Step 310.) For example, in response to a request for bids to buy one hundred shares of XYZ stock, the user 10 might bid to buy from the customer 50 one hundred shares of XYZ stock for \$100 per share, while the user 30 might bid \$95 for the same shares. If a particular response is the best price bid or offered (step 315), then the user who submitted that response is provided with a first indication advising the user that the response is the best price. (Step 325.) Generally, the first indication may be displayed to the user via a sound, a color of a font, a flashing screen, a fax, e-mail or other suitable predetermined means. However, if the

response of a particular user is not the best price bid or offered, then a second indication, which is different than the first indication, is provided to such user. The second indication does not identify the best price. The best price  
5 determination can be made, for example, using a computer processor which receives data relating to each response and determines the best price response.

10 If the same price is offered by more than one user, and such price is the best price, then only the user who was the first to offer such price would receive the first indication. Other users, who also offered the best price, but after the first user, would receive the second indication.

5 If the users 10, 30 wish to adjust their responses (e.g., change their respective bid or offered prices), then steps 310 through 330 are repeated, and the new responses are provided to the customer, generating either the first indication or the second indication. (Step 330.) Although the customer 50 may  
20 view all responses, preferably each user 10, 30 may view only his or her own response. Thus, the users 10, 30 are unaware of other users' responses.

25 As each user adjusts his or her price up or down, essentially generating a new response, a new best price may be established. The system 1 will then indicate (by the first indication) to the user submitting the best price that the new response has generated the best price, and will indicate to the user which previously had generated the best price that  
30 the old price is no longer the best price. In response, any user can adjust his or her price in an attempt to achieve the best price response. At any time, the customer 50 can accept any of the pending responses. Likewise, any user may cancel a pending response up until the point that the price is accepted  
35 by the user. The system preferably monitors the responses in essentially real-time to continually detect the price response



and transmit the first or second indication to the appropriate users. By blinding each user to the responses of other users, but for an indication of whether his or her own response has provided the best price, the system according to the present invention is designed to encourage bidding in response to the request which will quickly and efficiently establish a market price for the instrument.

Optionally, a user of the system 1 may utilize "a topped-and-out" procedure. By employing a topped-and-out procedure, the user advises the system to cancel the response if at any point it is not the best price response. For example, the user 10 could generate a first response which offers to buy XYZ stock for \$100 per share and, the user 30 could generate a second response which offers to buy XYZ stock for \$101 per share. If user 10 has employed a topped-and-out option, since the second response is the best response for the customer 50, the first response of the user 10 would be eliminated from the system 1.

Several embodiments of the present invention are specifically illustrated and/or described herein. However, it will be appreciated that modifications and variations of the present invention are covered by the above teachings and within the purview of the appended claims without departing from the spirit and intended scope of the present invention.